

CHEMONICS INTERNATIONAL INC.



## BOLIVIA: MID-TERM EVALUATION OF THE RURAL FINANCIAL SERVICES ACTIVITY

A Task Order Under the AMAP/Microfinance IQC

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## ACRONYMS

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ASOFIN	Association of Regulated Microfinance Institutions
ATM	Automated teller machine
BIC	Private credit information bureau
FFP	Private Financial Fund
FONDESIF	Financial Services Development Fund
FINRURAL	Association of rural financial institutions
ICC	International Consulting Consortium
IT	Information technology
MDF	Market Development Fund
MFI	Microfinance institution
MIS	Management information system
PAV	Automated point of sale
PMP	Performance Monitoring Plan
R&D	Research and Development
REI	Expression of interest
RFS	Rural Financial Services
SBEF	Superintendency of Banks and Financial Institutions
SIPROTEC	Client Protection System
UFV	Housing finance monetary unit
VAF	Vice Ministry of Financial Affairs
USAID	U.S. Agency for International Development



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## Executive Summary

After a decade of unimpeded growth, Bolivia's microfinance sector in the late 1990s faced recession and a nearly saturated urban microcredit market. The Rural Financial Services (RFS) Activity was launched within this context, intent on expanding the microfinance sector providing innovations for continued growth. The Government of Bolivia, now facing social unrest, has responded to the economic downtrend by weakening the position of the Superintendency of Banks and Financial Institutions (SBEF) and by channeling large amounts of directed funds through the NGO system.

The microfinance sector, led by the regulated microfinance institutions (MFIs), has demonstrated resiliency uncommon to nascent industries during a similar state of affairs. While challenges persist and threaten viability of sector entities, the strongest MFIs have gained confidence by virtue of their recent strong performance.

This RFS Project evaluation, made two years after implementation, focuses on the performance of the RFS Project, implemented by Development Alternatives Incorporated (DAI) and on assessing objectives and approaches in light of the changing economic and political environment. The RFS Project consists of three major components: (1) Expansion and Innovation; (2) Microfinance Industry Development; and (3) Policy and Regulatory Environment.

*Expansion and Innovation component.* The evaluation scope of work places greatest emphasis here. The Project team developed activities in response to demand from MFIs, which resulted in a high degree of client satisfaction with the quality of services.

The distribution of the level of effort among the component's three sub-components, on the other hand, was less than optimal. Only three noteworthy initiatives were started under the most important sub-component "development and expansion of services." Fully half of the component's level of effort was dedicated to the "information technology" (IT) sub-component. Of the eight NGOs that expressed interest in receiving IT assistance, only three proved to be worthy counterparts. The third sub-component, "organizational development," has focused on strengthening and consolidating the operations of regulated MFIs. Activities under this sub-component have in most cases been developed by the MFIs themselves, and they have been quite satisfied with the quality of assistance.

The most important Project activities are still in the implementation stages, therefore, it is too early to draw conclusions about Project *impact*. Three initiatives carried out under the "development and expansion of services" sub-component are promising: The savings program alliance between FIE and Pro Mujer in early 2003 could potentially more than double the number of FIE's savings clients. Similarly, support under the Market Development Fund (MDF) to PRODEM in installing 10 rural ATMs has resulted in rapid increases in deposit accounts and could potentially massify savings services in Bolivia's rural areas. The other two sub-

components, essentially institutional strengthening activities, are less easily measured in terms of their impact on underserved clients.

Added value has shown greatest impact in the IT component as the NGOs receiving the technical assistance had very low in-house capacity at the outset. Support to FIE's savings initiatives also brought high value added to the institution in terms of technical expertise and financial support.

Less value added can be attributed to the ATM initiative with PRODEM, although the Project's US\$170,000 contribution undoubtedly provided a major financial incentive. The sub-component enjoying the least value added has been "organizational development." For the most part, the regulated MFIs had both the technical and financial capacities to undertake these interventions on their own.

Initially, the RFS Project indicated no preference as to which *institutional mechanism* was most appropriate, however, as implementation progressed, the focus turned to regulated MFIs and support to NGOs was reduced. The decision to do so was justified in that regulated MFIs had the capacity to incorporate technical services in a sustainable manner, while NGOs repeatedly revealed weaknesses that proved them incapable of significantly contributing to Project goals.

This third generation USAID microfinance initiative aims to further develop a mature industry with a highly technical program requiring creativity and innovation. Technical assistance as the main *implementation mechanism* has been on target, lending the greatest added value and impact.

The Market Development Fund (MDF) has provided critical financial and technical incentives to MFIs in embarking on major innovations. The Fund should continue to be an important, if not the most important, mechanism to support MFIs' new products and services.

*Microfinance Industry Development.* This component was designed to build an industry infrastructure that reinforces consolidation and innovation. The greatest level of effort and greatest impact has been achieved under the "credit reference system" and the "applied research, analysis and dissemination" sub-components.

The Project provided high quality, critical support to a new credit bureau initiative led by FINRURAL. Assistance in completing the feasibility study, legal analysis, and an assessment of potential shareholders resulted in a viable institutional plan. Disagreements with the BIC's main promoters over ownership structure and capital requirements were aggravated by slowness in BIC obtaining a license, resulting in the Project's decision to temporarily curtail support.

The sub-component "research, analysis and dissemination" has helped to raise political and economic issues on development of the Bolivian microfinance industry. Papers on opportunities and dangers facing Bolivian microfinance have produced excellent technical arguments for policy dialogue. Research, however, has not received adequate follow-up from USAID and other international organizations to address constraints and obstacles to the microfinance industry.

*Policy and Regulatory Environment.* This component, the Project sought to achieve a more facilitative SBEF role by supporting initiatives in two sub-components: “supervision strengthening and regulatory adjustments.” The Project provided substantial technical assistance and training in strengthening the SBEF’s risk-based microfinance supervision capacity, but it has largely neglected the regulatory sub-component. While this has been partly justified by the unwillingness of the government to undertake such reforms, it still reflects an imbalance that leans toward a more conservative, rather than facilitative, approach to regulation and supervision.

*Performance Monitoring Plan (PMP).* The evaluation indicates that the PMP for the Project is still an appropriate instrument for measuring impact. The exception to this is the indicator for increased rural credit clients, as the Project’s focus on rural financial development has been de-emphasized due to weaknesses in NGOs and increased prevalence of directed credit by FONDESIF. Results have fallen short of targets, but this trend should begin to shift in 2003. Increases in deposit accounts are on the rise and could continue because of Project assistance. Development of new products and opening of new points of service is expected to increase sharply.

While the Project has been valuable in supporting some of the industry’s most critical initiatives, it has accomplished less than what was possible. This evaluation provides *three principal recommendations* to attain a higher level of achievement.

*First, the RFS Project should demonstrate stronger leadership in developing the microfinance sector and should play a more pro-active role in creating and implementing all three components.* In the regulation and policy area, the Project should engage USAID and other donors with political leverage in confronting critical issues, addressing first the issue of FONDESIF directed credit. In industry development, the Project should provide selective, highly intensive support to initiatives furthering the industry’s development beginning with resumption of support to the BIC. Finally, in “Expansion and Innovation,” the Project should demonstrate greater creativity and assertiveness in developing new financial products and services.

*Second, RFS Project objectives should be pursued and achieved primarily through innovation within the context of an entirely market driven, private sector orientation.* Innovation occurs through for-profit, regulated MFIs, on which the Project should place its attention, while de-emphasizing support to non-profit institutions.

*Third, management of the RFS Project should be improved by redefining roles and responsibilities within USAID and the Contractor.* Long-term staff should become more involved in the development and implementation of new initiatives, and USAID staff should become more engaged in the conceptualization and monitoring of activities. Administrative tasks need to be simplified to allow Project resources to be more effectively channeled to technical activities.





# Bolivia: Mid-Term Evaluation of the Rural Financial Services Activity

## A. Introduction and Context

Bolivia's microfinance industry is among the most advanced in the world. As of December 31, 2002, the 17 microfinance institutions associated with the network of formal financial intermediaries operating in the sector – the Association of Regulated Microfinance Institutions (ASOFIN), the microfinance NGO network, and the Association of Rural Financial Institutions (FINRURAL) – had an outstanding portfolio of USD 327.9 million and 332,166 borrowers. Together, these institutions served 37 percent of the estimated total number of 900,000 microenterprises, a level of market saturation higher than in any other Latin American country.

**Table 1: Basic Numbers of the Outreach of Bolivian MFIs (December 31, 2002)**

	Number of Branches	Number of Borrowers	Portfolio Volume (USD million)
<b>Total ASOFIN</b>	<b>162</b>	<b>176,073</b>	<b>264.7</b>
Banco Sol	34	51,401	80.9
Caja Los Andes	27	51,073	64.2
FIE	16	26,468	34.7
PRODEM	61	21,386	44.1
Eco Futuro	6	7,187	6.6
Fortaleza	7	2,936	15.7
Fassil	3	12,341	6.9
Agrocapital	8	3,281	11.6
<b>Total FINRURAL</b>	<b>171</b>	<b>156,093</b>	<b>63.2</b>
ANED	40	34,310	10.6
Pro Mujer	28	31,535	4.6
FADES	44	20,344	15.0
Diaconía – FRIF	8	15,940	6.5
CRECER	17	40,142	5.8
FONDECO	13	6,894	5.1
IDEPRO	4	0	5.1
Coop. El Chorolque	5	3,236	4.6
CIDRE	12	3,692	5.9
<b>TOTAL</b>	<b>333</b>	<b>332,166</b>	<b>327.9</b>

Source: Boletín Financiero Microfinanzas, December 2002

A brief historical review is required to understand how Bolivian microfinance has reached this comparatively advanced state of development and to assess how current political and economic factors threaten the industry.

After the closure of state-owned development banks in the mid-1980s, a few visionary Bolivians, supported by well directed donor resources, addressed the country's socio-economic challenges by creating microcredit institutions. The industry flourished. In the mid-1990s the Bolivian government, supported mainly by GTZ and USAID, developed a new set of rules and regulations to facilitate the continued sustainable growth of a now significant sector. The framework permitted the transformation of a series of NGOs to formal financial intermediaries, including Private Financial Funds (FFPs) – Caja Los Andes (first licensed in 1995), FIE, PRODEM, and Eco Futuro.

Toward the end of this period of strong economic growth, banks and consumer credit institutions entered the microfinance market, attracted by the success of the Bolivian MFIs. However, aggressive loan disbursement techniques and inadequate risk assessment led to over-indebtedness in the entire market, including in the MFIs. The absence of a private credit referencing system inclusive of non-regulated entities contributed to the problem.

During the late 1990s the macroeconomic context for microenterprises and the informal sector in Bolivia changed. Overall economic growth slowed, the informal economy was hard hit by a new customs law that curbed illegal imports from neighboring countries, and the coca-growing regions suffered economically as a result of stronger enforcement of coca eradication policies. These factors, aggravated by continent-wide economic malaise, reduced Bolivia's annual growth rate from mid-1990s levels of five percent to only 1.2 percent in 2001. This translated to reductions in real per capital income.

These macro changes coincided with a movement of microfinance borrowers protesting against high interest rates and strict enforcement of the repayment rules. While the consumer credit industry was the principal cause of this backlash, the MFIs were thrown in the pool of institutional targets.

The confluence of economic, social and institutional problems resulted in rising delinquency rates and a significant reduction in the number of borrowers in some institutions. MFIs that relied heavily on solidarity loans were particularly affected, as this type of lending technology proved to be inadequate in a recessionary environment. While performance suffered during this period, the regulated MFIs in particular demonstrated resiliency, surviving the crisis and posting indicators superior to the rest of Bolivia's financial system.

The social and political crisis in Bolivia worsened as the new century began. New populist movements emerged from the far left, culminating in the outbreak of violence and looting in February 2003 that almost toppled the newly elected President Gonzalo Sánchez de Lozada. The now fragile government of Sanchez de Lozada has felt mounting external pressure, mainly from Congress, as well as increased internal pressure to quickly fend off political and social threats.

One government solution has been to channel financial resources to the poor, especially the rural poor. Credit has long been a favorite instrument of developing country politicians to address poverty, in part because of its relative ease as a mechanism, and in part for lack of viable alternatives. History has repeated itself in 21st century Bolivia but this time policy threatens a viable financial sector for the poor that has taken 15 years to build. Two specific government-led

interventions have occurred.

The most visible of these was an attempt to politicize the role of the SBEF, a state institution regarded for its professionalism and its relative independence from government intervention. Despite this, in late 2002 the government issued a decree that took away the SBEF's authority to issue norms and subjected the institution to the supervision of a newly created Ministry. It required firm pressure and joint action of the International Monetary Fund and the World Bank to push through a May 2003 decree that reinstated most of the SBEF's original authorities, including normative power.

However, the financial autonomy of the SBEF has yet to be reinstated. The institution, which once financed itself from regulatory fees of the financial sector, is now dependent upon the central treasury for its entire budget. This has resulted in delays of salary payments to SBEF personnel of more than a month.

A second example of new government policies has involved the Financial Services Development Fund (FONDESIF). Despite its questionable internal policies to direct credit through NGOs, FONDESIF was once recognized for its independence from political influence. This has changed recently with the institution serving as a conduit for political objectives. The dangers this poses to the sustainability of the microfinance sector and the expansion of the frontier of microfinance has been argued by Claudio González Vega in a paper produced for the RFS project called *“Dilemas en la Expansión de la Frontera de las Finanzas Rurales: Oportunidades, Retos y Peligros para la Cooperación Internacional y el FONDESIF en Bolivia.”*

In an interview with the RFS evaluation team, FONDESIF's highest ranking representative stated the institution's objective of channeling resources to specific economic, social and even political beneficiaries. This would be accomplished, he said, even if it resulted in distorting the private financial systems. The institution's activities confirm this. For example, FONDESIF tempts microfinance NGOs into opening remote area branches by subsidizing installation and operating costs. Some of the contracts with NGOs even include on-lending interest rate ceilings.

Overall, the change in the definition of the role of the state presents serious threats to the Bolivian microfinance system. By weakening the position of the SBEF and by channeling large amounts of directed funds through the NGO system (some NGOs have about half of their portfolio refinanced with FONDESIF funds), the current government threatens the sustainability of this sector that has achieved worldwide recognition.

The microfinance sector has demonstrated resiliency uncommon to such a nascent industry. While the challenges persist and even threaten the future viability of the sector, the most competitive MFIs have gained confidence by virtue of their strong recent performance. They see the need to consolidate operations but, at the same time, to confront the economic and political crises through measured expansion and innovation.

## **B. Methodology**

The methodology used in evaluating the RFS Project was driven by the level of effort. The timeframe for two consultants to complete a final evaluation was approximately three weeks. Of

this, two weeks were dedicated to interviews and research and one week to report writing. This was sufficient to respond to all the questions in the scope of work. Fortunately, the consultants encountered a great deal of consistency in the information and feedback about the Project. This facilitated the process of arriving at conclusions and developing recommendations.

Time did not allow the consultants to visit any of the Project supported initiatives being implemented by the MFIs, nor did it allow in-depth analysis of the viability of individual initiatives. Any comments about individual Project supported activities are based mainly on conversations with involved parties and not on first-hand observation. Such information, viewed separately, was not critical to this evaluation; rather, the information, viewed together, has helped inform the conclusions herein.

The principal sources of information for the evaluation consisted of personal interviews with representatives of the institutions and of written documentation. See the table below.

**Table 2: Information and Sources Used to Carry Out the RFS Project Evaluation**

Type of Information	Information Sources
RFS Project data, feedback, and recommendations for the future	DAI, USAID, project documentation, MFIs, industry organizations, GOB institutions
Current state of and challenges for Bolivian microfinance	Project documentation, MFIs, industry organizations, donors, GOB institutions
General information about the economic, political, and social situation	Multilateral lender reports and interviews, industry organizations, GOB institutions

The evaluation scope of work contains questions organized according to: (1) the current RFS Project scope; (2) impact of RFS activities; (3) implementation strategies; (4) other policy and regulatory issues; and (5) recommendations to adjust the RFS scope. While the evaluation is devoted entirely to addressing these five sets of questions, the consultants determined that the evaluation format would be more coherent by organizing its contents into the following three major sections: (1) the Introduction and Context; (2) Project Results; and (3) Conclusions and Recommendations.

The Results Section C, pages 5-23 comprises the main body of the report. It is organized by RFS Project components, including C1, Innovation and Expansion; C2, Microfinance Industry Development; and C3, Policy and Regulatory Environment. As the majority of the questions in the scope of work refer to the Innovation and Expansion component, this section of the evaluation is organized as a series of questions derived directly from the scope. Additionally, the Performance Monitoring Plan has been included in the Results subsection C4, page 21, as it was an important part of the scope of work.

Regarding project management, the evaluation scope of work did not ask questions directly related to project management, per se. Early in the evaluation, though, it became clear to the consultants that this was a major issue affecting implementation. Therefore, it was decided to devote Section D to this topic.

Finally, the Conclusions and Recommendations (Sections E, page 24 and F, page 27 respectively) focuses on implementation and impact. The format in E and F highlights the cross

cutting nature of the conclusions and recommendations. The USAID-approved evaluation scope of work plan is contained in Annex A.

## **C. Program Results**

### **C1. Innovation and Expansion**

#### **Has the RFS Project provided MFIs with high quality services?**

As detailed below through examples from counterparts in all three sub-components, MFIs are pleased with the quality of the Project's services.

The approach to the implementation of technical services has been demand oriented. This approach has enabled the Project to provide generally high quality technical assistance in priority areas identified by partner MFIs. Led by the chief of party, the three long-term staff have interacted proactively with Bolivia's most capable MFIs, including the four FFPs, BancoSol, and several of the stronger NGOs, as well as rural microfinance NGOs.

After the formal public launching of the RFS Project on July 31, 2001, the long-term personnel initiated individual visits with the general managers of the MFIs. These meetings centered around the MFIs' strategic and operational plans, in which MFIs highlighted the most critical planned initiatives in products and services development and in institutional strengthening. The purpose of these meetings was to identify areas of support within the parameters of the RFS Project's broad technical mandate.

#### *Development and Expansion of Services*

Of the three sub-components under the Innovation and Expansion component, "*development and expansion of services*" is clearly the one with greatest direct potential impact in achieving RFS goals. Despite this, during the first two years of project implementation, only three noteworthy initiatives were undertaken, all focused on increasing access to savings services.

1) The first initiative consisted of a strategic alliance between FIE and Pro Mujer. This project was important for both its potential direct impact as well as a pioneering demonstration of a mutually beneficial joint program between an unregulated and a regulated institution. The thrust of the activity involved FIE's placement of physical savings windows in branches of Pro Mujer's village banking units. In its implementation, the RFS Project provided critical design services as well as almost \$100,000 in installation costs, including equipment, furniture, and software. The activity, now in its pilot phase, has opened two savings windows, with another eight planned by mid-2003.

Both FIE and Pro Mujer acknowledged the RFS Project for the high quality and responsive nature of its assistance. The success they anticipate will be due, they say, in large part to the Project's support. Although the main consultant provided quality assistance in the technical design, there were some weaknesses in the consultant's conception of how the activity would be integrated into the structures of FIE and Pro Mujer. By providing supplementary support from a long-term consultant, the Project satisfactorily completed the design.

2) FIE has also benefited from a second initiative to enhance its savings products. Having concluded that its previous product offering had not fulfilled expectations, FIE requested assistance from the RFS Project. Technical assistance began in 2002 under a subcontract with Accion International. The comprehensive program began with a thorough market study. The second phase of assistance, now in progress, will culminate in the design and testing of new and modified savings products. FIE has been very satisfied with both the structure and quality of this technical assistance.

3) The third initiative under this sub-component involved approximately US\$170,000 in grant funds to PRODEM in financing the fabrication of 10 automatic teller machines (ATMs) and hardware requirements for 10 autonomous points of sale. PRODEM conceptualized and developed the new technology and submitted a grant proposal to the Market Development Fund (MDF) to subsidize implementation costs. While there have been delays due to technical problems, five ATMs had been installed at the time of this evaluation, and the remaining five are expected to be installed by June 2003. The purpose of this cutting edge, high technology activity is to provide a practical solution to the savings needs of clients in rural communities. Fast, easy access to savings account funds are brought to clients by virtue of thumb print recognition technology. PRODEM has invested significant resources of its own in a focused marketing program to complement the installation of this service.

### *Information Technology*

The second sub-component “*information technology*” (IT) is fundamentally important. IT work began in 2001 with a baseline analysis of IT in eight institutions, all NGOs. The regulated MFIs were satisfied with their current MIS systems and declined support from the Project. Analysis revealed that NGOs’ current IT capabilities varied from “very limited to barely acceptable” with severe limitations in communications capabilities, particularly in rural areas.

As a result of the study, the RFS Project initiated conversations with at least seven NGOs regarding possible IT assistance. It was hoped that a critical mass of NGOs committed to a common software solution would eventually improve MIS capabilities, improve support and lower costs. This was not to be, as most of the NGOs had diverse interests and plans that rendered their needs incompatible with the RFS Project.

The RFS Project arrived at an agreement with three of these NGOs to provide some level of technical assistance in the IT area. These included Crecer, Pro Mujer and FADES. Support has been ongoing for approximately a year in all three institutions. After defining Crecer’s complex software needs, the NGO is now close to choosing its software solution. Assistance to Pro Mujer has focused on helping the institution adopt and modify its current Costa Rica based software to its operations. This has required significant technical assistance in which Project consultants became directly involved with the software provider. FADES has been assisted with a more modest level of support in the modification of its software. FADES views these activities as a short-term solution, and may be interested in a complete change in its system in the medium term.

All three institutions expressed a high level of satisfaction with the quality of technical services and the objectivity with which they were delivered. None of the institutions believed it could have acquired adequate services without support from the Project.

Efforts were also made in the area of communications, in this case for both NGOs and regulated MFIs. After identifying this issue as a major problem for management and a source of high costs, the Project analyzed possible solutions. It was determined that, by grouping together, the MFIs would have the scale of operations required to receive quality communications services at affordable prices. Project consultants developed the technical requirements and requests for offers were issued to potential providers. In the end, the solutions proved too costly for the MFIs. The consultants responsible for this evaluation did not have the time or the specialized technical expertise to assess this communications initiative, but it is possible that the specifications requirements were unrealistic. The Project is presently near the point of a decision to discontinue support to communications altogether.

While the most of the Project's IT efforts came to naught, the consultants believe these efforts were worth the risk. Bolivia's microfinance institutions, particularly the NGOs, continue to be hampered by inadequate IT. Furthermore, the continuing efforts with three NGOs in MIS are likely to result in decisive improvements in these institutions' overall management capabilities and sustainability.

### *Organizational Development*

The third sub-component "*organizational development*," under "Innovation and Expansion," includes a wide array of possible initiatives, from accounting modifications to strategic planning. This sub-component has involved a greater level of effort than the other two sub-components. The RFS Project representatives expect the trend to continue in 2003.

This sub-component has focused almost entirely on strengthening the capacity of regulated institutions, although the type of strengthening has been quite distinct from the types of institutional development (information systems, manuals and procedures, organizational development) that took place in the 1990s with relatively immature institutions. In 2002, Bolivia's strongest MFIs comprised a more mature and competitive industry in an advanced stage of development. Most critical areas identified by the institutions addressed improving client services or lowering costs. Consolidation has continued to be their principal focus.

The Project's support to institutional strengthening began in 2002 and plans are to increase this type of support in 2003. The types of assistance provided have included:

**Table 3: RFS Project's Institutional Strengthening Technical Assistance**

Type of Technical Support	Institution Supported
Credit scoring development	BancoSol, PRODEM, FIE
Market research	BancoSol, FIE, Caja Los Andes
Activity based costing (ABC)	FIE, FADES
Systemic risk assessment	BancoSol, PRODEM, Caja Los Andes

Beneficiary MFIs, for the most part, have been very satisfied with the quality of technical assistance, and in some cases, the MFIs themselves have chosen their own consultants. The Project has accommodated its support to MFIs' demands. Assistance with activity based costing is a partial exception to the demand driven approach. In this case, the Project was forthcoming in recommending the implementation of this instrument. Both of the institutions that received assistance with activity based costing reported that it is still unclear how it will be put into practice and eventually reduce costs.

### **Have Project services resulted in their intended impact?**

Impact of development interventions is donors' highest priority. Before addressing project impact, it of note to mention that the RFS Project originally focused on innovation and expansion. That original focus has shifted to institutional strengthening and marginal impact of assistance in institutional strengthening is being measured with the currently defined indicators of increased products and services to the un-served or underserved. It could, on the other hand, be measured with indicators such as increased client satisfaction, lower costs, and increased efficiencies. But since institutional strengthening is not even a secondary goal of the Project, such measures of impact would not seem appropriate here. This issue of support to MFIs is discussed further in the "recommendations" section, page 27.

It is premature to draw definite conclusions about Project impact since most initiatives are still in the development or pilot phase. Preliminary information is encouraging in three initiatives under the "*development and expansion of services*" sub-component. Initial results of the FIE-Pro Mujer alliance have demonstrated extremely high satisfaction and usage rates of clients for the new savings window. The service has resulted in significantly reduced transactions costs and increased security for lower income women. Clients also report satisfaction with better treatment from FIE cashiers than from institutions with which they previously received deposit services.

The potential impact in 2003 will be 14,000 new savings clients for FIE, compared to the institution's current 8,540 savers. Similarly, 700 of Pro Mujer's women's associations will have direct access to previously unavailable savings services.

PRODEM's installation of ATMs in rural communities will have similarly important potential benefits in increasing access to savings services. The FFP reported a 10 percent increase in savings in only 15 days at its Caranavi branch. It is too early to predict the impact of this project



in its pilot phase but, if successful, it could increase the number of rural savers by thousands. It could also result in millions of dollars in increased deposit mobilization for PRODEM.

These savings innovations in FIE and PRODEM represent the most important initiatives undertaken in pursuing the goals of the RFS Project. The Project should do everything in its power to support the successful implementation of these programs. If success is achieved, the Project should make this success known among other actors in the industry, which could lead to more innovative programs in upcoming years.

While the inability to incorporate most NGOs in the IT sub-component was unfortunate, the potential impact on the three participating institutions could be immeasurably positive: Crecer, Pro Mujer and FADES together have nearly 100,000 active clients. The operational complexities of the two village banking programs in particular have posed a major management information system challenge. The lack of access to quality, timely information by management represents both a risk to current operations and a deterrent to future expansion.

Both Crecer and Pro Mujer expect to have fully operable information systems this calendar year. These systems will enhance their ability to administrate their programs and to manage risk. Without these new systems, it would be difficult for either of the institutions to continue expanding as they have been for about a decade.

Impact is still less easily measured under the “*organizational development*” sub-component. First, most of the programs initiated in 2002 are still in progress and results will not become clear until later this year. Second, the types of activities supported may have impact on the institutions’ ability to manage their businesses, but probably will not have impact in any measurable way on their ability to serve previously un-served or underserved clientele.

That said, two arguments support helping the strongest MFIs to become even stronger. These arguments revolve around, as Claudio González Vega states, the “industrialization of microfinance” (SEFIR, 2002, *Por qué hay que proteger a las microfinanzas bolivianas y cómo*). 1) The process of industrializing microfinance so that it becomes a sustainable activity in future generations are threatened by systemic risks (economic recession, stricter border controls, debtor associations). While most of the MFIs have survived these risks, it has left them less robust and more aware of their relative inability to address systemic risk. 2) Recent government interventions into the sector mark a return to unsustainable directed credit programs driven by short-term political goals. A central government weakened by social unrest and growing populism has spurred the use of these instruments disguised as microfinance. In reality, these instruments represent a direct threat to the market driven institutions through unfair competition and through the erosion of a strong payment culture developed over the past 15 years.

### **How effectively has the Project interacted with the microfinance institutions?**

The long-term technical assistance team has played an active role in working with MFIs. As part of its operational year planning process, Project staff met with regulated MFIs and NGOs to become familiarized with the institutions’ operating plans and to assess their technical assistance needs. The Project identified activities planned by the MFIs that fit the project scope and

discussed in detail to determine if they should receive Project assistance. All institutions expressed a strong level of satisfaction with this process, in terms of the activities being communicative, inclusive, and fair.

MFIs provided similar feedback on implementation of technical assistance and actively participated in the selection of consultants, in some cases recommending their own. This resulted in a high level of satisfaction with short-term consultants. Furthermore, the Project's long-term staff was diligent about tracking and following-up short term assignments. This was important in maintaining quality control and in assessing the need for changes or additions in short-term support.

While most MFIs felt the RFS Project's participation in identifying and supporting activities was sufficient, several said the Project offered up no new ideas and seemed to focus on administering technical assistance rather than participating in the innovation process. NGOs, on the other hand, reported a higher level of involvement by the Project's long-term staff in the identification of technical assistance needs, although some said they would have preferred greater and more sustained involvement by the Project's long-term consultants.

The challenge of the technical assistance provider's role in recommending activities is ever present in development. An overly zealous provider risks imposing inappropriate support (supply side), while a passive provider may not impart as much decisive expertise (demand side). The RFS Project, in the opinion of the evaluation consultants, has erred on the demand side.

### **Have Project services added value?**

The scope of work for this evaluation asks if the Project has encouraged activities that MFIs would otherwise not have undertaken due to the lack of their own funds, technical skills or qualified personnel. The answer is mixed. Predictably, NGOs have enjoyed the greatest added value from the Project as they are inherently weaker than the regulated MFIs.

*Most added value: IT support.* NGOs did not have the funds, the skills, or the personnel to satisfactorily implement improved MIS on their own. Not only did the three NGOs that received direct IT support lack in-house technical skills to solve their MIS deficiencies, but they were unable to adequately identify their technical assistance requirements. Microfinance IT is highly specialized; not even the general managers of the regulated MFIs claim to understand its technical nature.

*Second most added value, "development and expansion of services."* FIE's savings alliance with Pro Mujer would not have been feasible had the Project not assumed a leadership role in both the conceptualization and the design of the program. It is doubtful this initiative would have materialized without the Project's support.

Similar conclusions can be made about FIE's savings product enhancement. The degree of technical expertise required here is difficult to find anywhere in the world, however, Acción International has the experience and capabilities to carry out a comprehensive savings development program for a relatively mature microfinance institution.

The ATM and the autonomous points of sale activities at PRODEM, unlike the savings initiatives at FIE, were conceptualized and designed by the MFI; PRODEM views itself as the lead technology innovator among Bolivian MFIs. Nevertheless, the ATM and autonomous points of sale activities posed major operational and financial risks to the institution. The presence of the RFS Project as a technical and moral partner lowered PRODEM's real and perceived risks to operations. As PRODEM had been hovering at the breakeven point for several years, this activity represented a financial investment the institution may not have assumed without the Project's approximately US\$170,000 contribution.

*Less value added can be attributed to the third sub-component of "organizational development."* Regulated MFIs had the technical and financial wherewithal to undertake most interventions on their own. Almost all the technical needs were identified by the MFIs and were included in their strategic and operational planning processes. This included initiatives in credit scoring, human resource development, client services and market research.

Providing technical support to Bolivia's regulated MFIs is especially challenging in the world of microfinance. These mature institutions have highly qualified top management and relatively strong middle management. The RFS Project's long-term consultants have not been the source of many technical or institutional initiatives in the FFPs or BancoSol. It is not clear whether this was because the MFI's in-house expertise was equal to or superior to that of the long-term consultants or because the Project's intentional efforts were to respond to, rather than recommend solutions to the MFIs. Either way, the result has been minimal added value to regulated MFIs by virtue of Project subsidies accelerating already planned initiatives.

The ability and willingness of the Project to generate convincing new initiatives in the regulated MFIs appear to be increasing with time. A number of activities are planned for 2003 that have been originated by the RFS Project, including wireless hand-held technology for Caja Los Andes and the assistance in integrating systemic risk into institutions' management objectives.

### **How has the institutional focus of the Project evolved?**

Initially, the RFS Project gave no preference as to which kind of financial service provider was eligible to participate, as long as the institution had the capacity to incorporate new services and technologies in a sustainable manner. This approach changed as Project implementation progressed, resulting in increased focus on regulated MFIs and reduced support to NGOs. This shift is described below.

The RFS Project was launched by issuing a request for expressions of interest (REI) to six regulated MFIs and eight NGOs. The REI requested experience, strategic planning, organizational issues, and financial data. Five regulated MFIs and six NGOs submitted responses.

Consultants divided the 11 institutions into two tiers, both eligible for Project assistance, but with preference given to Tier 1 institutions, judged more capable of expansion and innovation. Tier 1 included four regulated MFIs, and Tier 2 included six NGOs and EcoFuturo. This was the

Project's first critical moments in which NGOs were determined less capable than regulated MFIs in fulfilling RFS Project goals.

Successive reports and incidences further argued for a diminished role by NGOs in the Project. A March 2002 IT diagnostic concluded that "most NGOs are not prepared to introduce new products, enter strategic alliances or report to a credit bureau." That report, as well as direct observation by Project staff, revealed major middle management weaknesses in the NGOs. Most NGOs did not have counterparts in MIS, organizational development, and financial management that were implicit prerequisites for developing new products and services. This point was acknowledged by top NGO managers themselves.

Despite NGOs' weaknesses, the Project proceeded to provide limited services to them mainly in IT development. Progress has been slow owing mainly to the NGOs relatively poor technical assistance absorptive capacity. Deadlines have gone repeatedly unmet, affecting implementation plans and making difficult the task of programming international short-term consultants.

Finally, increased availability of FONDESIF funding has had negative impact on NGO performance. Two thirds of FONDESIF funds are derived from the Bolivian treasury and the other third from international donors; these funds have been channeled to NGOs on preferential financial terms. As a condition to access these funds, FONDESIF requires that NGOs establish points of service in specific rural areas. Another key criteria for gaining access to these funds is the individual NGO's on-lending interest rate: the lower the better. In evaluating rural credit expansion of FADES (SEFIR, *La Tecnología de Crédito Rural del Fondo para las Alternativas de Desarrollo*, April 2003), the authors state that "this expansion has been contaminated by the abundance of microfinance funds (referring to FONDESIF) that have induced the organization to distance itself from the process of consolidation and restructuring in recent years." FADES' general manager confirmed the validity of this statement to the consultants, adding that the severe increase in delinquency during the past two years has been a direct effect of FONDESIF funding.

According to the general managers of FADES, Crecer and Pro Mujer, FONDESIF funds represent at least half of their credit portfolios. The consultants were unable to acquire data for other NGOs, however, according to information showing about US\$40 million disbursed by FONDESIF to NGOs since 1995 (SEFIR, *Dilemas en la Expansión de la Frontera de las Finanzas Rurales: Oportunidades, Retos y Peligros para la Cooperación Internacional y el FONDESIF en Bolivia*, August 2002), it is probable that more than half the portfolio of all Bolivian microfinance NGOs is currently channeled by FONDESIF.

The consultants believe the Project's decision to limit support to NGOs was well reasoned and justified. Both FINRURAL and representatives of the Vice Minister of Financial Affairs expressed dissatisfaction with the Project's de-emphasis on NGOs. They believe NGOs, because of their presence and willingness to expand in rural areas, are the most appropriate vehicles for achieving project objectives. While this may be true for the short term, the RFS Project clearly states that project objectives should be obtained sustainably, i.e., by means of financial institutions with the capacity to extend and broaden the provision of financial services to

underserved and un-served. The ability of NGOs to accomplish the Project's goals under these terms is highly questionable.

The Project's trend toward serving regulated institutions occurred throughout 2002, and the 2003 operational plan further reinforces this trend. Of the 2003 budget for sub-component "*Expansion and Innovation*," fully 85 percent was dedicated to four regulated MFIs. The remaining 15 percent has been budgeted for four NGOs.

While they may not be as disposed as NGOs to aggressively expand into rural areas or to develop and launch new products, the regulated MFIs have demonstrated greater capacity to innovate in a sustainable manner. After emerging relatively healthy from four years of systemic crises, the regulated MFIs express greater optimism and confidence. Their interest in developing new products and services and in entering rural areas is now greater than any other time during the RFS Project.

Nevertheless, absorptive capacity of technical assistance is an issue even with regulated MFIs, albeit less than with NGOs. PRODEM and BancoSol have postponed RFS-supported initiatives, in several cases during mid-implementation. FIE also admits to having provided deficient counterparts for some of its RFS-supported activities. Given the project's planned expanded assistance to regulated MFIs, the Project will need to be vigilant in assuring its assistance is optimally used.

### **Have Project implementing mechanisms been effective?**

The Project employs three main mechanisms: 1) technical assistance; 2) training; and 3) grants. While technical assistance has been the principal implementing mechanism, the grants mechanism through the Market Development Fund has been the most effective in terms of cost-benefit.

USAID's RFS Project is a third consecutive generation microfinance program. The first two generations of USAID programs contributed to building sustainable, regulated institutions employing proven, effective credit technologies. By the year 2000, creditworthy clients in Bolivia's urban and peri-urban areas had been nearly saturated with loan services. Bolivia had successfully built a huge microcredit industry with an essentially single product offering. But many urban clients still did not have access to other important financial services, while most rural clients still had no access at all.

The goal of the third generation activity, RFS, is to extend and to broaden the industry's reach. Each generation of USAID projects has undergone marginal increments in technical sophistication, and this third activity presents significant technical challenges.

*Technical assistance* was incorporated into the original design as the principal instrument in implementing the RFS Project fundamental activities of expansion and innovation. Technical requirements to develop and implement new instruments have been beyond the in-house capacity of even the most advanced MFIs, including hand-held technologies and customized savings products. Implementation requires that they be fully integrated across the internal departments of

the institutions, which means significant technical support altering systems, modifying manuals and procedures, and training personnel. To date, technical assistance has proved effective in developing new products, and consultants believe it will continue.

Though technical assistance has been effective, its distribution across the sub-components of the Innovation and Expansion Program has not followed the design or original contract. As shown in Table 4 below, information technology comprised more than half of all technical assistance in 2002 owing to the Project's initial emphasis on IT and the intensive nature of IT work.

The products and services development sub-component, however, received only 10 percent of LOE, or the least amount of resources. In 2002, the organizational sub-component received more than three times the funding received by the products and services sub-component. This trend is expected to continue according to the 2003 Operational Plan.

**Table 4: Innovation and Expansion Sub-Components and Level of Effort Approved (December 31, 2002)**

Area	LOE approved	As % of the component
Baseline Definition	73	7%
Products and Services Development	107	10%
Information Technology	542	52%
Organizational Development	328	31%
<b>TOTAL</b>	<b>1050</b>	<b>100%</b>

Source: RFS Quarterly Report October-December 2002

*Training* as an implementation mechanism has been used to a lesser degree than technical assistance. When training supported technical innovations in MFIs, it has been considered part of the technical assistance mechanism and has been integral to developing and launching new products and services as well as in institutional strengthening of MFIs.

The RFS Project supports international training, which is included under the "local capacity building" sub-component of industry support. On observation of the types of training attended, e.g., human resources certification, analysis of bank risk, their link to industry strengthening is not readily apparent. The consultants recommend that these types of training be moved under the "Innovation and Expansion" component. This should have the further advantage of allowing Project staff to develop and use more clearly defined eligibility criteria for international training opportunities to contribute directly to expansion or innovation.

*Grants* to MFIs through the Market Development Fund (MDF) is the third implementation mechanism, which have financed initiatives with the greatest impact. The MDF serves as a counterpart subsidy for development and implementation of new products, services or points of service. Support provided under the MDF for the two initiatives were important for two reasons.

1) Considerable financial risk was inherent to launching innovative new services. The nearly decade-long economic crisis continues and, while MFIs have begun to emerge from their

conservative shells, consolidation takes precedence over expansion. In both cases, the MDF subsidy to the MFIs was critical.

2) The Project, backed by USAID, provided the MFIs with valuable technical and moral support. With unforeseen difficulties in implementation, MFIs felt more confident they could address these difficulties.

Eligibility for MDF subsidies is limited to expansion and innovation, according to the grants manual design and specifications. The terms “market expansion” and “product innovation” have been precisely spelled out, a precedent that will prevent MFIs’ accessing grant funds to subsidize “normal” expansion and new business development plans. As long as the MDF committee adheres to the review and selection process, the probability that funds are used for other purposes, such as institutional strengthening or operations support, is minimal. Properly implemented, the MDF will continue to be an important, if not the most important, instrument under the RFS Project.

## C2. Microfinance Industry Development

The objective of the amended Project’s second component, “*Microfinance Industry Development*,” is to “assist in building a microfinance industry infrastructure that reinforces innovation and consolidation of frontier advances.”

The component consists of four areas based on components of the original Project design: 1) a credit reference system; 2) marketing and promotion; 3) building local capacity; and 4) applied research, analysis, and dissemination. Until December 31, 2002, a total of 377 days of short-term consultants were approved, of which 147 (39 percent) correspond to the credit reference system; 133 (35 percent) to research; 71 (19 percent) to marketing; and 26 (7 percent) to local capacity building.

**Table 5: Industry Development Sub-Components and Level of Effort Approved (December 31, 2002)**

Area	LOE approved	As % of the component
Credit reference system	147	39%
Promotion and marketing	71	19%
Local capacity building	26	7%
Applied research, analysis and dissemination	133	35%
<b>TOTAL</b>	<b>377</b>	<b>100%</b>

Source: RFS Quarterly Report October-December 2002

1) The *credit reference system* has been a Project focus, and one counterparts have widely appreciated. All Bolivian MFIs see the need to create a comprehensive credit reference system with information about clients of regulated and non-regulated microfinance institutions, as opposed to the Superintendency’s credit bureau, to which only supervised financial intermediaries report and have access. The absence of such a mechanism to share credit

information among regulated and non-regulated MFIs contributed greatly to the over-indebtedness crisis of the late 1990s.

At the beginning of the Project, long-term staff consulted with the SBEF and the Viceministry of Financial Issues (VAF) about the regulation of private credit bureaus, and looked for existing initiatives in this market. Legal conditions for the establishment of private credit bureaus had been developed by the *Ley de Bancos y Entidades Financieras* and the *Ley de Reactivación Económica*. One industry actor, FINRURAL, had started an initiative to form the Credit Information Bureau (Buró de Información Crediticia, BIC).

In mid-2001, Project began to support the initiative. Consultancies were carried out to revise and complete the initial feasibility study and to analyze the legal conditions for the constitution of a private credit bureau. The Project provided advice on shareholder structures for the BIC and the involvement of an external associate that could provide a technological platform for the bureau. Project consultants established contacts with Equifax and Transunion, two U.S.-based providers of technological solutions for credit reference systems, and with Datos, an already functioning commercial information system from Bolivia.

However, the negotiations between FINRURAL and Datos failed due to disagreements about the value of Datos' technology and database. In early 2002, FINRURAL changed its strategy and ended negotiations with Datos. After negotiations failed with another private Bolivian initiative, the Sistema de Protección al Cliente (SIPROTEC) of the Santa Cruz based chambers of commerce and industry, FINRURAL moved forward with the BIC and most of its associates, including the strongest of the regulated MFIs associated with ASOFIN and FUNDAPRO, an institution that promoted development of the microfinance industry. FINRURAL decided not to incorporate an external technological associate prior to having formally constituted the BIC, and felt that the BIC would be in a better negotiation position after being formally established.

Project staff disagreed with these changes in FINRURAL's strategy, arguing that the BIC initiative had too little commercial interest and too many NGOs and trade organizations as shareholders. Despite initial backing of the feasibility study for the creation of BIC, Project staff, after consulting with headquarters, felt the initial capital of USD 500,000 was inadequate and made the case for at least USD 2 million. The nevertheless felt the initiative was moving too slowly and was rightfully concerned that the technical assistance would not be taken fully advantage of.

In September 2002, the Project curtailed its support for the BIC over organizational disagreements and delays in presenting the license application to the SBEF. However, soon after having written an official letter to the committee that promoted the establishment of the BIC, Project staff began to informally state their willingness to re-establish support to the BIC once it received its license.

During the time of this evaluation, the BIC received its license and contracted a general manager. Shares in the BIC are distributed as follows: FINRURAL and seven of its members together hold 35 percent; regulated MFIs also hold a total of 35 percent, and; FUNDAPRO holds 30 percent.



The board of the new institution is comprised of two representatives of the non-regulated MFIs, two of the regulated and one from FUNDAPRO.

As of this date, the Project Monitoring Plan indicator for the credit reference system (BIC established and operational) has been partially fulfilled. The SBEF has granted the authorization, but the bureau is not yet operational. The RFS Project has provided valuable technical contributions to the establishment of the BIC, although its current shareholders are split about whether this assistance was critical to obtaining a license. The final constitution of the shareholder structure is closer to FINRURAL's initial plans than to the Project's preferences.

A few interviewees stated that the Project's decision to discontinue further assistance until the BIC was licensed resulted in a positive response by organizers, an accelerated pace of implementation, and, finally, the licensing itself.

The most pressing question of the BIC is not yet decided: whether it will invite an external associate to provide the technological platform or whether it will develop its own software based on an initial solution already developed by FINRURAL. The Project will support the BIC with technical assistance and argue for choosing the external solution, a position these consultants believe would be more feasible and economical than the internal development solution. Support is foreseen in the areas of training the general manager of the BIC, assisting the BIC with its business plan, and editing the scope of work for the procurement of software and the selection of a provider.

2) In *marketing and promotion*, a plan was developed to improve the image of microfinance institutions by educating stakeholders and through the development of public awareness campaigns. The RFS also supported the idea of developing a marketing campaign to promote financial saving products of MFIs. The strategy was to coordinate this activity with other international donor agencies.

Initially, the Project held meetings with organizations representing different types of financial institutions (ASOFIN, FINRURAL and UNIVIV, the trade organization of the savings and loan institutions) to develop a joint communication strategy. An initial consultancy was carried out to design and implement an image improvement campaign through FINRURAL. For reasons not entirely clear, this initiative was abandoned. Next, USAID recommended that ASOFIN participate to bring greater professionalism to the campaign.

Despite solid efforts by the Project, the activity was suspended with the argument that aggressive promotion and marketing of microfinance could be counterproductive in the midst of economic and politic crisis, given the poor public image of financial institutions at the time. Thus, the indicator defined in the contract amendment as "educational campaign on savings designed and implemented" was not achieved. The RFS Project has no plans to pursue this matter further.

Despite a decision by industry actors not to undertake the publicity campaign, the evaluation consultants believe that a carefully and sensitively designed campaign would have produced an important contribution and could well have led to an improvement in the public image of MFIs.

Without second guessing the Project, perhaps the RFS could have taken stronger technical leadership in galvanizing support and collaboration for the campaign.

3) During the first two years of execution, the applied *research, analysis and dissemination* component has consumed a considerable part of the Project's effort in conducting demand driven research for MFIs and industry stakeholders.

Through the extensive involvement of sub-contractor Ohio State University, and especially of Claudio González Vega as the principal researcher, the RFS Project has taken significant leadership in raising political and economic issues relating to the development of the Bolivian microfinance industry. The papers about opportunities and dangers facing Bolivian microfinance have produced excellent technical arguments for policy dialogue.

MFIs do not regard the diagnostics and recommendations on MFIs' rural credit technologies – that of Caja Los Andes, PRODEM, CRECER and FADES – as a valuable service. Some expressed that they felt they were extending a favor to the Project by opening their institutions to an academic analysis.

Several institutions have requested support for research on topics such as the effects of the Unidad de Fomento a la Vivienda (UFV) on portfolio management. Another institution suggested research on the costs of accessing financial services for rural clientele and on potential markets for the MFI industry. The Project rejected these requests citing budget limitations.

The RFS Project works with AFIN in disseminating the results of its research, as well as in organizing seminars and workshops presented by visiting microfinance experts. For example, Claudio González Vega held a workshop on “Microfinance Portfolio Management during Recession,” presented to Caja Los Andes and FIE. Another example was a conference held by Mark Schreiner about “Credit Scoring as a Tool for the SBEF.”

Overall, the RFS Project has produced excellent research and arguments for policy dialogue, but USAID, donor agencies and other organizations have not provided follow-up to address constraints and obstacles. As such the research sub-component can therefore be regarded as only partially fulfilled.

4) In response to the contract amendment on *local capacity building*, the Project has shifted away from previous MFI skills strengthening and has embraced customized training packages, curriculum development, training of trainers, international exchanges, workshops, round table discussions and seminars.

Here the relationship between the RFS Project and some of the most important microfinance actors – FONDESIF, AFIN and FINRURAL – should be highlighted.

*FONDESIF.* Claudio González Vega's paper raised various issues for discussion: “The Dilemma of Expanding the Frontier of Rural Finance – Opportunities, Challenges and Dangers for the International Cooperation and FONDESIF in Bolivia,” Working Paper Number 6, August 2002 presents clear technical arguments on the dangers of market distortions caused by political

influence on FONDESIF's programming decisions. The paper caused some controversy even though it had been written prior to some of FONDESIF's most obvious and unabashed politically motivated initiatives. The author articulated the ideological differences between the RFS Project and FONDESIF, bringing them out into the open, and there has not been a common platform for constructive cooperation since.

*AFIN.* The Project has a limited working relationship with AFIN, a local provider of training and technical service for MFIs. The Project has subsidized some of AFIN's activities, including workshops and seminars featuring renowned international experts visiting Bolivia on short-term assignment. In these cases all consultant fees and travel-related costs were assumed by the RFS Project. AFIN distributed working papers underwritten and edited by the Project, with the exception of González Vega's paper in which FONDESIF's role is discussed controversially. While efforts have been worthwhile, the Project does not envision working with AFIN in any significant manner. AFIN's broad public and quasi-private sector ownership does not appear to be demand oriented, entrepreneurial or agile, which all constitute important attributes for a private training facility.

*FINRURAL.* The relationship between the RFS Project and FINRURAL was decided with the BIC initiative. Relations deteriorated when the Project withdrew its support because FINRURAL was not willing to accept conditions on technical assistance. In late 2002, the relationship warmed when the Project signaled informally its readiness to continue supporting the BIC. FINRURAL expressed interest in RFS support for several new NGO activities. Currently, the organization is promoting a technology project that includes telecenters and online communication facilities for the NGOs, a private regulation system for microfinance NGOs, and a strategic alliance between BancoSol and several NGOs for channeling remittances. However, it is clear that FINRURAL will insist on asserting its technical leadership on these projects and will not accept any conditions imposed by the RFS Project.

In synthesis, the Project has only partially met objectives of the capacity building sub-component. Activities have been limited to dissemination of information and sponsorship of training events in Bolivia and abroad. This type of training does not correspond to local capacity building objectives, which consultants interpret as a program to strengthen know-how via industry associations, consultants, and trainers. Almost all training has been directed toward institutional development of MFIs. Therefore, as a matter of form, this activity would be more appropriately positioned under the "Innovation and Expansion" component.

### **C3. Policy and Regulatory Environment**

Bolivian urban microfinance technologies were developed by the strongest microfinance institutions prior to being subjected to regulation and supervision by the SBEF. After becoming formalized as banks and FFPs, these institutions have still produced the most innovative financial products and new service technologies. As the newly regulated institutions were allowed to mobilize public funds, however, a balance was needed between regulations restraining institution's excessive risk taking and financial innovation to underserved clientele.

The RFS Project policy design sought to achieve this balance by focusing on two elements: improving existing regulations and strengthening supervisory capacity of the SBEF. Policy

objectives seek to strengthen the regulatory framework for microfinance by lifting constraints to expansion of the microfinance frontier.

During these first two years, considerable effort was devoted to the supervisory capacity sub-component by means of institutional strengthening (145 days of short-term consultants), while regulatory improvement went neglected. *The first sub-component, adjustment of policy and regulations*, included (1) identifying legal and regulatory opportunities and threats to provision of microfinance services; (2) recommending improvements in the regulatory environment, and; (3) leading policy dialogue with stakeholders. Policy design did not imply a “relaxation” of exigencies for the microfinance institutions, but rather adjustments to the reality of their operations.

The Project has not carried out any concrete activities despite lengthy discussion with the SBEF and Viceministry of Financial Affairs, the preparation of scopes of work, and the identification of suitable consultants. This is owed in part to political circumstances, as the outgoing government in 2002 was unwilling to follow new regulatory initiatives before elections. Following elections, the political situation for financial regulation has become too complicated to push for reform. Not even the first task – the identification of constraints in legislation and norms – has been fulfilled. It would have been possible, however, to undertake this task without engaging in political dialogue.

*The second sub-component, support to the SBEF in the supervision and institutional evaluation of MFIs*, was designed to build SBEF capacity in on-site inspections and in supervising MFIs through preventive regulation. By request of the SBEF, the Florida-based firm International Consulting Consortium (ICC), Inc. was subcontracted for this sub-component. ICC has a long record of advising the Bolivian SBEF on regulatory and supervisory issues.

The main work of ICC consisted of supporting the SBEF in applying supervision concepts that had been developed in a previous consultancy. The concepts were based on improved, more appropriate techniques for MFI supervision. Rooted in credit technologies evaluation as opposed to individual loan evaluation, the approach sought a reduction in workload both for SBEF inspectors and for MFI staff without compromising the quality of information and resulting supervision.

ICC consultants developed a handbook of supervision and trained the SBEF’s staff in the application of the concepts. They supervised the implementation of pilot site inspections by the SBEF, which were successfully completed in early 2003. The consultants also assisted the SBEF in improving permanent (“ex site” or “cabinet”) supervision instruments and early warning systems.

Additional assistance was provided to the SBEF to review accounting related norms and regulations, to analyze the SBEF’s annual operating plan and to help the SBEF to better understand the relevance of risks other than credit risk. Special attention was given to the governance risk of MFIs. This risk refers to the prevalence of institutional investors and the relative absence of real private investors in the MFIs’ capital formation. Finally, the SBEF

expressed particular appreciation for ICC's independent analysis of the current political setting and its implications for supervision.

While the RFS Project has responded to the demands of the SBEF for institutional strengthening and more sophisticated supervision technologies, it has not been effective in identifying and promoting adjustments to regulation. In the context of the Project's broad objective of expanding the frontier of formal finance toward rural and underserved areas, these results do not reflect the balance discussed earlier and, furthermore, may even be counterproductive. The demands of the SBEF, which understandably are inclined toward a conservative approach to regulation and supervision, have been addressed; meanwhile, balance has not been achieved through focusing on issues facilitating expansion and innovation. Remarks by SBEF representatives reflect their inclination to further restrict risk-taking and not to promote financial innovation. The SBEF intendent for non-bank institutions currently seems to be very concerned about the governance structure of MFIs, and does not perceive the existence of regulatory constraints for the entry to rural areas. He expressed the SBEF's willingness to allow regulated MFIs' further expansion into rural areas provided "risks are correctly measured."

Regarding future support to SBEF, the decisive issue will be to identify critical regulatory constraints and to support the SBEF in pursuing improved regulations. This side of the equation should be emphasized initially to give greater balance between facilitating innovation and expansion versus conservative oversight.

There are other regulatory initiatives that, while not part of the RFS scope of work, deserve attention: the law on movable guarantees and land titling.

The law on movable guarantees has been on the political agenda since the mid-1990s but continues to be postponed due to its perceived controversial role in supporting economic development of the poor. This legislative initiative would regulate non-movable guarantees as collateral by MFIs, a practice that institutions rely on for large parts of their portfolios, though without legal authority. Many MFIs regard this law as crucial for their legal security. A law proposed by the Viceministry of Financial Affairs, and reviewed by ASOFIN and concerned groups was high on the political agenda earlier this year, but dropped steeply down the list of priorities after the events in February.

#### **C4. Assessment of the Performance Monitoring Plan**

The Performance Monitoring Plan (PMP) is USAID's principal instrument for evaluating project impact. A well conceived PMP helps maintain focus and assesses effectiveness of implementation. The PMP has limitations in that, by establishing all-year project targets before implementation, it cannot anticipate future exogenous or internal factors that affect results.

Performance under the first two indicators – number of deposit accounts and number of rural loan clients – depends on variables outside Project control and are not fully attributable to it. This is particularly the case with rural loan clients. Economic recession has retarded MFI advancement into rural areas where NGOs are dominant actors. By reducing support to NGOs, the Project has reduced its opportunity to meet this target. Furthermore, the impact of FONDESIF, with about US\$60 million channeled to rural credit is far greater than any RFS

assistance. FONDESIF's impact, either positive or negative, even in the short term, is a matter of debate. These consultants share González Vega's view of the harmful impact FONDESIF has on Bolivian microfinance.

The PMP anticipated an increase in rural loans clients between 2001 and 2002, however, the actual number dropped by eight percent. There was an encouraging upward trend during the final three months of 2002, but any trend with this indicator cannot easily be traced to the Project.

Regarding savings, all five regulated MFIs (the four assisted institutions and EcoFuturo) have been more aggressive about mobilizing small deposits since 2001. This was due in part to a decision by these institutions to diversify their liabilities structure, and in part due to the slowly growing public confidence in these well performing institutions. While the degree of attribution of increased deposits through 2002 to the RFS Project was not significant, it can be expected to increase because of the Project's recent and planned activities.

The number of new deposit accounts grew 50 percent more than anticipated in the PMP. As of December 2002, the five MFIs claimed more than 118,000 deposit customers, an encouraging sign of growth for Bolivia microfinance, and an opportunity for the Project to provide selective, critical support in the future. As both PRODEM and FIE expect significant new deposits as a result of their MDF-supported initiatives, the Project may be able to make legitimate claims of attribution by December 2003.

Unlike rural loans and deposits, the indicators of new points of service and new products offered can be more justifiably attributed to the RFS Project. By December 2002, no measurable progress had been achieved toward the respective targets of 12 new points of service and 12 new products. There are external and internal explanations for these poor results: First, recession has impeded microfinance expansion and innovation anticipated during Project design. Second, NGOs, always willing partners in exploratory endeavors when partner financiers carry the burden of risk, have been de-emphasized. Other reasons relate to program management such as those several months of implementation opportunities lost because of the Project's slow start. Its demand driven focus, by definition has allowed for new initiatives developed only by MFI counterparts. Had the Project been faster and more assertive in promoting and developing new initiatives, progress in establishing new points of service and new products might have come more swiftly.

A turnaround in target achievement for these two indicators is likely in 2003 and beyond. The PRODEM automated points of sale and FIE savings window alliance with Pro Mujer could result in up to 19 new points of service. Planned initiatives with Caja Los Andes (wireless hand held technology) and BancoSol (smart cards) could further contribute to these targets. Potential exists for progress toward the indicator of new products and services, although it is doubtful the Project will produce 21 products and services as planned. These targets were set too high and were unachievable even in the best of economic climates.

With the recent licensing of the credit bureau by the SBEF, the RFS Project has successfully completed the first phase of this initiative. As discussed in more detail in the Microfinance

Industry subsection C2, page 15, assistance could prove even more critical in bringing the credit bureau to the operational phase.

Results have been mixed with the final two indicators – regulation and supervision. Assessment of supervision methodologies and design of a site visit model was to be completed during the time of this evaluation, only a few months behind target. The SBEF has been pleased with the technical support of the sub-contractor ICC and is optimistic about the resulting manual's impact in improving supervision. Nevertheless, the Project should closely monitor the performance of this new instrument and support modifications and improvements where needed.

The consultants believe that regulatory efforts should have been made either prior to supervision improvements or in tandem with such improvements. No progress has been made in supporting regulatory framework for microfinance expansion. Project staff cite the uncertainty of a changing economic, financial, and social environment as justification for its lack of initiative on this front. Regulation and supervision remain an area of importance for the RFS Project and should be pursued immediately and aggressively.

With the possible exception of the indicator for rural loans, the PMP remains an appropriate instrument to measure the Project's impact. The consultants believe rural loans should continue to be monitored because of the importance of rural finance as a central concern in Bolivia's economic and social development. Should conditions improve within the next few years, the RFS Project could redouble its efforts in rural areas.

In reporting PMP data, USAID should provide complementary text to clarify and give greater context to the Project. Challenging systemic conditions, which were assumptions to the achievement of Project targets, have affected implementation. This will likely continue throughout Project duration.

#### **D. Project Management**

Both USAID and the RFS Project have been fairly diligent in management roles, however, despite best intentions, a combination of factors has contributed to less than optimal administration.

First, the Project did not have a chief of party in place until nearly four and a half months after the March 20 contract signing. This was a setback as a technically challenging institutional contract such as this one required the leadership and presence of a strong top manager from the outset. Lack of a chief of party may have negatively affected project productivity: only 22 percent of the planned 1,156 days of short-term technical assistance were used during 2001. Curiously, this problem was not mentioned in either the Project's quarterly reports to USAID or in direct conversations between Project personnel and the evaluation consultants.

Second, contract objectives cited the need for one international and one local long-term consultant, a commitment restated in the August 2001 operating plan. A third long-term professional was added and justified for the 2002 operating plan to achieve the Project's "ambitious objectives." This justification cited the need for technical expertise, however, long-term Project staff devote most of their time to administrative office tasks. With a cost of

approximately three quarters of a million dollars for three long-term experts, it can be reasoned that technical assistance carried out by the three long-term consultants could have been implemented at less than half the cost.

Third, the relationship between USAID and the Project has not been smooth or always productive. All RFS institutional counterparts interviewed, without exception, perceived a serious communication problem between USAID and the Project and indicated that they were unclear about USAID and the Project's respective roles and responsibilities. According to interviewee statements, major decisions about Project support were frequently delayed or reversed. That said, the consultants' analysis of this aspect of the Project is cursory, and we are unable to confidently opine on the source of the relationship problem. Nevertheless, the probability is that both USAID's excessive requirements and the Project's predilection for dutifully fulfilling perceived administrative expectations have contributed to this lack of a constructive understanding.

Project quarterly reports and operational plans give all activities equal weight, and therefore do not provide a sense of priority, dimension, or deeper analysis. An example is the scant description of the savings product enhancement program with FIE. This initiative, according to FIE, has the potential to transform its capacity to mobilize deposits. The same quarterly report contained nearly twice as much information about the Project's work in "overhauling" BancoSol's human resource system. While important, the Project's relative contribution to BancoSol's program has been far less than its more fundamental support to the FIE activity.

Fourth, the February 2002 contract amendment provides a succinct, well defined scope of work. It did not change the broad Project mandate, but did include specific modifications based on a changing microfinance climate and a year of implementation experience. Much greater implementation flexibility was achieved by restructuring the scope into three main components.

As a final note on the Project's overall role in the industry, the consultants conclude that USAID's RFS Project is unequalled among donors in Bolivia in terms of forward vision and resources to carry out this vision. Thus, it has both the potential and the burden of demonstrating leadership in advancing Bolivia's already accomplished microfinance industry. Accordingly, it is the consultants' recommendation that greater resources be shifted to the industry, particularly to the policy components. Implementation will require a modification of the terms of reference for long-term professional staff to allow: a chief of party to define policy issues and lead a process to address these issues; a professional responsible for supporting critical industry level issues, and; a microfinance technician to identify and implement new products and services initiatives with MFIs.

## **E. Conclusions**

1. *Expansion and Innovation Component: given the political and economic situation, the RFS Project was redefined to focus on underserved clientele and institutional strengthening.*
  - a. The RFS Project has based its level of support on the MFIs' relative capacity to administer new products and services development and on their capacity to respond



to and incorporate technical assistance; for this reason, assistance to NGOs has waned while assistance to regulated MFIs has intensified.

- b. RFS Project support to rural areas, while still present, has been de-emphasized as a result of a combination of factors. First, NGOs, the primary actors in rural areas, have proven to be weak partners due to institutional weaknesses and inadequate capacity to provide counterpart to programs of relatively advanced technical assistance. Second, the growing role of politically motivated FONDESIF funds has distorted the rural finance marketplace. As a consequence, MFIs most capable of successfully moving into rural areas are slowing their steps in this direction.
2. *Expansion and Innovation Component: technical assistance for MFIs has been demand oriented, but has not brought decisive new ideas to the sector and (up to now) has not generated measurable impact.*
- a. A demand oriented approach has enabled the RFS Project to provide high quality services adopted by MFIs. On a scale of one to 10, no MFI that has received support rated the Project less than a seven in terms of quality of services.
  - b. The majority of Project assistance to regulated MFIs involved initiatives the MFIs would have undertaken without assistance. This was particularly the case with the initiatives in institutional strengthening. This lack of “additionality” was due in part to the Project’s demand driven approach – the vast majority of technical assistance support was provided in response to MFI’s expressed needs. In few cases, such as activity based costing, has the Project contributed new ideas. Several initiatives planned for 2003, including risk management and training on the Basel Agreement, have resulted from the Project’s suggestions. This may signal a shift toward stronger pro-active initiative on the part of the Project’s long-term staff.
  - c. As of December 2002, the RFS Project has not had a measurable impact on PMP indicators. The goals of increased rural loan clients, points of service and new products development have been the most difficult to address. The lack of progress in new rural loan clients is due to the infusion of large amounts of directed credit through FONDESIF as well as the project’s decision to limit assistance to NGOs.
  - d. Lack of progress in points of service and new products development has been due in part to the reluctance of MFIs to expand and innovate, and in part to the Project’s slow start and lack of initiative in aggressively promoting these instruments. Nevertheless, there are promising developments that should result in improved impact indicators during 2003 and beyond.
  - e. Two initiatives with the greatest potential direct impact on the RFS Project objectives have been through the MDF. The first of these is the FIE-Pro Mujer alliance in installing savings windows in Pro Mujer branches. The second is the fabrication and installation of automatic teller machines in rural PRODEM branches. Together, these initiatives bring savings services to previously un-served

rural clients and underserved peri-urban clients. These technologies could potentially result in tens of thousands of new deposit accounts and millions of dollars in additional savings.

- f. With the exception of the research and dissemination component, the Project has not identified constraints and weaknesses leading to changes in the institutions and the sector. This was due to the Project's chosen preference to pursue a demand driven approach to implementation. Bolivia boasts a relatively sophisticated microfinance industry; in such an environment, an effective combination of technical expertise and assertiveness are required.
3. *Industry Development and Policy and Regulatory Components: although excellent quality technical assistance and research has been carried out, these have not translated into important industry and policy actions.*
    - a. On the industry and policy level, the Project has dedicated major resources to the credit reference system, to research on diverse Bolivian microfinance themes, and to the institutional strengthening of the SBEF. Generally, this work has been valuable. Project consultants responsible for the credit reference systems provided high quality support in carrying out a feasibility study. The subcontractor Ohio State University has produced timely, provocative working papers on the state of Bolivian microfinance. Another subcontractor, International Consulting Consortium, supported the SBEF in strengthening supervision mechanisms.
    - b. While valuable, the initiatives listed in the previous conclusion did not fully accomplish Project objectives. This was due to a lack of leadership and aggressiveness by the technical assistance team, a characteristic that can be observed in each of the three areas supported under the Project, as follows:
      - With regard to the BIC, despite the Project's attempt to influence decisions, FINRURAL showed stronger leadership and, according to their representatives, did not accept "conditional technical assistance" from the RFS Project team. FINRURAL set up the institution's capital according to its own criteria, and did not follow the recommendations of Project consultants to seek stronger involvement of private actors, including a strong technological partner from abroad. It remains to be seen if the transfer of leadership from FINRURAL to the board of the newly founded BIC will allow the Project to exert greater leverage on institutional decisions in the future by providing further technical assistance.
      - In the case of the research and dissemination component, González Vega's excellent technical arguments have not been followed up by long-term technical staff with international donors, industry organizations, and the Bolivian government. The RFS Project has the potential to act as a "think tank" for Bolivian microfinance, but has not realized this potential.

- The Project's technical assistance in the area of supervision consisted of fulfilling the SBEF's wishes to subcontract ICC for institutional strengthening and improvement of supervision mechanisms. The Project, in implementing this sub-component, did not leverage its relationship with the SBEF by pursuing a more adequate regulatory framework for the expansion of the frontier of microfinance. The Project may have missed its best opportunity to promote regulatory and legislative improvements. Currently, the SBEF does not view the regulatory scheme as an obstacle to the expansion of services.
4. *Project Management: implementation of the RFS Project has been relatively inefficient.*
- a. While excellent work has been implemented during the first two years of the Project, opportunities were missed because of management problems and weaknesses. The Contractor's slow start in mobilizing resources and interacting with industry counterparts resulted in very low productivity during the first nine months. Further, the lack of a constructive working relationship between USAID and the Contractor has resulted in an unnecessary administrative workload and has caused confusion among institutions on the respective roles of USAID and the Contractor. Most importantly, it has slowed implementation.

## **F. Recommendations**

1. *Cross Cutting: the RFS Project should demonstrate stronger leadership in developing the microfinance sector and should play a more pro-active role in creating and implementing initiatives under all three components.*

After 15 years of dynamic growth, Bolivia's microfinance sector has been struggling to emerge from a period of stagnation that began at the end of the last decade and the future is uncertain. Will the sector shrink? Has it reached a permanent plateau? Or will it continue to evolve through growth, innovation, or both? Some of the strongest MFIs have demonstrated eagerness to evolve, mostly through diversification of services, but the essential nature of services and outreach has not changed significantly.

There are strong forces running counter to growth and innovation. Most forces are inherent to the Bolivian business context: limited domestic market, poor support services and linkage industries, lack of rule of law, unstable social and political environment, to name some. These and other forces have resulted in Bolivia's occupying Latin America's lowest rankings in business competitiveness and investment climate.

USAID's RFS Project is the only support mechanism in Bolivia capable of assisting in overcoming these forces. The Project has financial resources, access to international technical expertise, and administrative independence and flexibility. Nearly all actors recognize the RFS Project as the industry's potentially most powerful instrument of support. USAID, therefore, has a responsibility to lead the sector's development and to maximize use of resources. This recommendation focuses on demonstrating leadership in all three components as follows:

*Regulation and Policy.* The Project should engage USAID and other donors with political and economic leverage (IMF, World Bank, IDB, Corporación Andina de Fomento). The result should be a jointly designed strategy including elements of political pressure, marketing and education.

Given the threat posed to the Bolivian microfinance system by the current political developments and the distortions to the financial system, the most important task of an industry-wide program is to deepen and extend policy dialogue, supported by strong technical analyses. The RFS Project, as a technical assistance vehicle, cannot accomplish this challenging objective on its own. Three additional elements are needed:

First, technical arguments need to be developed as a basis for discussions about the role of the state in Bolivian microfinance. The Project has the capabilities to produce these arguments, as demonstrated in the research sub-component.

Second, strong political leverage is needed so that the Bolivian government listens and responds to the arguments. Given that FONDESIF has large amounts of resources from the government budget and significant resources from donors that do not share the objectives of financial systems development, leverage can only be achieved on a higher political level by a coordinated action involving the most important donors. Fortunately, the most important multilateral organizations, the International Monetary Fund, the World Bank, the Inter-American Development Bank and the Corporación Andina de Fomento share concerns about the role of the state and the health of the financial system. They may have less concerns about the threats to the microfinance sector specifically. To gain coordinated action of these donors, USAID should initiate a dialogue about the role of the state in Bolivian microfinance and lead it with the technical arguments produced by the RFS Project.

Ultimately, a third element is indispensable: adequate channels need developing in order to bring financial resources to the poor without distorting the credit system. Microfinance is adequate to provide resources to dynamic micro and small enterprises, but is an inadequate mechanism to channel subsidies to the poor. Loans to people unable to pay them back will leave them indebted, thereby aggravating poverty and increasing political pressure on the government and the microfinance system. Thus, alternative mechanisms have to be developed that reach the poor without distorting an efficient market-based mechanism for entrepreneurial development like microfinance.

USAID, through the RFS Project, should initiate activities by raising the awareness of donors and projects that use microfinance for directing financial resources to the poor; and, USAID can work with other donors in helping the Bolivian government with developing more adequate channels to reach the poor. The World Bank has an upcoming operation planned for October that could support setting the policy framework.

*Industry Development.* Bolivia's microfinance sector can be strengthened in large part by industry level initiatives. These are particularly good opportunities for donor added value, as MFIs themselves often do not have the financial, organizational, or technical capacities required to carry them out.

Among industry initiatives, a fully operational credit bureau is the number one priority. The Project has established its vital role in supporting the BIC; it now must become deeply involved in bringing this activity to operational mode. The Project should aggressively explore options to attract international technology partners.

The development of improved microfinance training capabilities is an important industry level initiative. Unfortunately, it appears that the principal service provider, AFIN, is limited by its complicated ownership structure. Nevertheless, the Project should stay abreast of AFIN activities and, should the institution demonstrate a strong market orientation, the RFS Project should identify opportunities to provide support.

The Project should consider industry support to the NGO sector. While this may seem to contradict earlier recommendations to eliminate support to NGOs, such assistance could be provided if certain conditions are met. First, such support should result in major NGO-wide improvements that lead the NGO sector toward greater market orientation. Second, such efforts should be highly cost effective as opposed to intensive efforts in support of individual NGOs. Areas of support include an alternative, independent regulatory framework for NGOs and group-purchased communications technology.

Finally, the Project should explore and analyze initiatives to support industry growth and innovation. Two include movable guarantees and land titling. Reforms may be difficult to implement even if political will exists to pass new laws. But if successful, they could contribute directly to expansion of the financial frontier by providing greater access to clients and, at the same time, provide greater security to service providers.

*Expansion and Innovation.* The RFS Project should demonstrate greater assertiveness in developing new financial products and services and in expanding microfinance coverage. Support for institutional strengthening should be provided on a reduced, more selective basis.

Although BancoSol and the FFPs have been timid about innovation and expansion into rural areas, in 2002 this began to change. Currently, these are the principal institutions with the capacity and inclination to extend the frontier of finance in Bolivia in a sustainable manner.

The RFS Project's 2003 operating plan coincides with this recommendation, although the plan also includes significant support for institutional strengthening. If project objectives are to be achieved, it is important that the Project refocus emphasis on expansion and new products development.

Successful achievement of this will require more creative approaches. The competitively granted MDF program is a good example, but needs additional incentives. The Project, for instance, could consider a scheme in which some costs of expansion and innovation are reimbursed rather than paid up front. Another possibility would be to hold contests among MFIs or to give special recognition for outstanding achievement in new products and services. Incentives must be created that develop an environment for innovation.

The Project should go beyond its demand orientation by becoming involved in the creation and development of new ideas. Long-term Project staff, supported by short-term consultants, should actively participate as change agents accompanying key technical and visionary MFI counterparts.

Finally, in parallel to support of new products and services, selective support for institutional strengthening should be directed in re-engineering MFIs. Their organizations' and human resources' capabilities must be capable of generating and implementing innovations that will be supported under the Project.

2. *Cross Cutting: RFS Project objectives should be pursued and achieved primarily through innovation. This will only occur by means of an entirely market driven, private sector orientation.*

This recommendation follows an established Project trend. For example, during 2002, non-regulated MFIs were de-emphasized, support to the credit bureau was discontinued after unsuccessful attempts in attracting private partners, and support to an overly pluralistic AFIN was minimized.

This recommendation proposes that this trend become an explicitly stated commitment for the overall Project. There are two reasons why USAID should carry out this recommendation: The primary reason requires returning briefly to the goal of the RFS Project: *to support the expansion and improvement of timely, efficient, sustainable financial services to underserved rural and urban populations*. MFIs over the past 15 years have implemented basic credit technologies until absorptive capacity of the market was nearly reached. Scarce innovation occurred during these years because MFIs were consumed by fulfilling unmet demand.

The present situation marks a new phase in the industry's development. New challenges exist in *consolidation and innovation*. While MFIs, particularly regulated ones, have been working the past several years to improve efficiencies, lower costs and consolidate, they are not reaching the underserved.

This is the role of innovation and the USAID-sponsored RFS project. Historically, industries of all kinds have been induced to innovate because of competition and the profit motive led by strong governance and driven by owners with investment capital at stake. The microfinance industry in Bolivia will not be the exception to this rule; this is a fundamental precept that should be recognized and decisively adopted by the RFS Project.

Innovation requires resources for research and development (R&D). While some MFIs are motivated by competition to innovate, they lack financial resources due to the systemic difficulties amply discussed. USAID, through the RFS Project, should maximize its efforts to channel resources to fill this critical gap. That said, resources alone will not be sufficient. Effective R&D requires management and technical capacity to define, develop, and implement new innovations, which is another role for the RFS Project.

In conclusion, microfinance innovation will be achieved by competitive, for-profit entities with adequate management and technical capacity. The four strongest regulated MFIs – Caja Los Andes, PRODEM, BancoSol and FIE – should be the future mechanisms for extending financial services to the underserved. Subsidized (donor financed) R&D, applied in a context void of competition and the profit motive, will not result in innovation.

A second reason is to counterbalance the proliferation of non-market driven microfinance initiatives and donor resources behind them. These can be seen on a number of fronts, including: (1) the creation of AFIN with multiple donors and even GOB participation in the shareholder mix; (2) the failure by credit bureau promoters in involving private sector partners with credit bureau experience and know-how; and (3) heightened support by European donors to NGOs, mainly through FONDESIF.

These initiatives reveal a lack of consideration of the very process by which Bolivia accomplished so much in microfinance. Bolivia's microfinance sector has been successful mainly because of the performance of business oriented companies, now the regulated MFIs. The initiatives cited in the previous paragraph would suggest that the institutions that supported microfinance development in the 1990s, especially bilateral donors, have been left behind.

USAID should remain focused and clear in supporting an innovative, market driven approach to microfinance development. This will help the sector continue maturing and developing. While a decision to completely separate its program from more traditional non-profit approaches may not be popular among some of USAID's counterparts, it will certainly be more effective in supporting the industry. MFIs excluded will be those largely incapable of sustainable expansion and new products development.

3. *Project Management: management of the RFS Project should be improved by redefining roles and responsibilities within USAID and the Contractor.*

This recommendation consists of various parts. First, in addition to technical expertise, successful implementation of the RFS Project will require a high degree of involvement by long-term personnel in development and implementation of technologies and policies. While it is reasonable that the Project responds to expressed demands of counterparts, it is equally important that the Project supply and promote innovative thinking. This specific recommendation cuts across all aspects of Project implementation. The evaluation consultants believe a more assertive long-term consultant team is the single most important change that can occur in the Project.

Second, the USAID-RFS Project working relationship has been a constraint to effective implementation. It is recommended that USAID become more engaged in day-to-day project management. USAID should join the RFS Project team, and should participate in conceptualizing activities, be responsible for aspects of monitoring implementation, and should accompany Project staff on field visits. As mentioned above in the policy and industry recommendations, USAID's active role in addressing policy issues is a requisite to change.

USAID and the RFS team should agree on scopes of work before they are officially submitted. This is also true of the annual operating plans, which have been laboriously detailed task-

oriented lists – sure recipes for laboriously detailed follow-on modifications. They should have a broader perspective and be more flexible.

Project representatives should be more forceful in arguing their positions with USAID. The Project's demand driven approach appears to manifest itself in a strong desire to please everyone, microfinance institutions on the one hand and USAID on the other. The Project's role as technical advisor should at times involve saying "no."

Third and finally, as a budget and operations planning matter, the project level of effort for industry and particularly policy support should be increased. The corresponding reductions would be addressed by limiting institutional strengthening activities with MFIs.

**Table 6: Summary of Conclusions and Recommendations**

Conclusions	Recommendations
Given the political and economic situation, the RFS Project was redefined to focus on underserved clientele and institutional strengthening.	The RFS Project should demonstrate stronger leadership in developing the microfinance sector and should play a more pro-active role in creating and implementing initiatives under all three components.
Technical assistance for MFIs has been demand oriented, but has not brought decisive new ideas to the sector and (up to now) has not generated measurable impact.	RFS Project objectives should be pursued and achieved primarily through innovation. This will only occur by means of an entirely market driven, private sector orientation.
Although excellent quality technical assistance and research has been carried out, these have not translated into important industry and policy actions.	
Implementation of the RFS Project has been relatively inefficient.	Project Management should be improved by redefining roles and responsibilities within USAID and the Contractor.



## **ANNEX A**

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### **SCOPE OF WORK RURAL FINANCIAL SERVICES ACTIVITY MID-TERM EVALUATION**

#### **I. BACKGROUND**

The goal of the Rural Financial Services (SEFIR) Activity is to promote the expansion of the frontier of microfinance in Bolivia, with a special focus on the inclusion of underserved populations from rural areas with the provision of all types of financial services (loans, deposit facilities, payments, remittances, etc). The objective is officially expressed as “to support the expansion and improvement of timely, efficient, sustainable financial services from financial institutions to more people in rural areas. Underserved rural and urban populations alike are targeted for access to non-credit services, especially deposit services.” This assignment is to evaluate the project’s activities in light of both expectations as reflected in the project design, and external conditions as summarized below. It will include both objective and subjective measures. It will involve the review of documents, interviews with key individuals associated with the project, including officials of USAID, project staff, subcontractors, representatives of MFIs and the microfinance industry, GOB financial officials and grantees. The assignment will include the responsibility to describe accomplishments, measure impact, evaluate impediments and make suggestions for improvements and re-direction of the project for the future.

Bolivia finds itself mired in the fourth year of no or slow economic growth. Exogenous (Argentina, Brazil) and internal economic shocks are compounding the recession’s effect on the Bolivian microfinance sector. The impact of slow growth and economic setbacks is reflected in the financial system with higher delinquency rates, reduced profitability, loan portfolio contraction, and very limited expansion into new markets.

The domestic shocks have ranged from changes in the regulatory environment (e.g. new customs law, tougher bank regulations), to the contentions over coca eradication, falling commodity prices, and social unrest (road blockades). Crises in neighboring countries and trade partners have also contributed to the stagnation of the economy, particularly with reduced trade, remittances and returning workers further exacerbating unemployment. The result is that GDP per capita, trade, foreign investment and employment have all decreased. Devaluation in neighboring countries has also increased the hardships of entrepreneurs who now have a fierce competition in terms of lower prices.

The impact on the overall finance sector has been straightforward and significant. Financial activity has decreased: deposits and loan portfolios have shrunk, loan arrears have increased and finance sector profitability and solvency have fallen. This overall contraction undermines the possibility of expansion of financial services in the near future.

Three effects on the finance sector merit particular attention. First, the aggregated loan portfolio dropped from USD 4.7 billion in 1999 to USD 3.6 billion in 2001 (a 23 percent decrease). Second, the number of all clients has dropped from about 610,000 clients in 1999 to 480,000 approximately in 2001 (also a 23 percent decrease). Third, loan arrears have risen from about 7 percent to 16 percent in the same period (1999-2001). This highlights not only a considerable decrease in loan portfolios but also a significant decrease in their quality. Profitability, not surprisingly, has also been affected severely.

Despite a relatively better performance by regulated micro finance institutions (MFIs) in comparison with commercial banks, the crisis has revealed some latent weaknesses in the microfinance sector. The weaknesses throughout the financial sector reveal an inability to deal with systemic (sector-wide, economy-wide) vulnerabilities, as opposed to idiosyncratic (individual) risks. Some examples of the deficiencies particular to the MFIs follow.

First, the portfolio of most microfinance organizations was concentrated in the informal sector. The informal sector was negatively affected by a sweeping customs reform which reduced the availability of merchandise traditionally traded by the informal sector.

Second, lending technologies that were adequate for periods of economic growth were not agile enough to change procedures to control default in times of recession.

Third, microfinance organizations generated the vast majority of their income with credit related products. Credit, however, is very sensitive to economic slowdowns. The lack of financial product diversification, such as fee-based services, hindered their ability to withstand the drop-off in credit revenues.

Fourth, broader access to client-based information could have prevented organizations from lending to clients with multiple loans, and could have provided warnings of imminent problems.

The crisis has served as a wake up call for most microfinance organizations. Some institutions have shown themselves to be more robust than others. In particular, organizations that favored individual loans over group loans have fared better. In the same manner, organizations with already diversified income-generating activities (with a relatively larger proportion of small and medium enterprise loans and fee-based services) have better weathered the crisis.

Many microfinance organizations have also introduced a number of changes in procedures. Some of these changes include a more diversified supply of credit and non-credit services, greater use of tangible collateral, more emphasis on repayment capacity rather than on past performance -no more automatic renewal of loans - and controlled use of loan rescheduling - a rarely used practice in the past. In addition, loan provisions made by these organizations far exceeded what is required by the Superintendency of Banks and Financial Entities (SBEF). This prudent and opportune

behavior has allowed the microfinance sector to perform better relatively to that of commercial banking.

As in any crisis, some cleansing of organizations and practices has occurred. This cleansing, however, has been relatively smooth (i.e. an orderly exit of consumer lending institutions, changes in credit procedures). Overall, the microfinance sector has been able to adapt better to the new conditions and continue functioning without having to leave thousands of clients without services. Nevertheless, we believe that Bolivian microfinance sector still needs support to address some specific weaknesses and threats.

It is still not clear what the long-term impact of the Argentine crisis will be. Reduced trade links between Bolivia and Argentina are resulting in a continued devaluation of the Bolivian currency vis-à-vis the US dollar. In addition, the Bolivian Government, has established a series of trust funds with both Treasury resources and grants from international cooperating agencies for specific purposes, such as: reprogramming loans in arrears; and working capital for small agricultural producers, directed primarily to peasants in response to political demands of different geographical groups.

These funds are being channeled through the Fund for the Development of the Financial System (FONDESIF) to supervised and non-supervised microcredit institutions, such as NGOs and credit unions, as directed and subsidized credit. FONDESIF is a government organization, created originally to capitalize commercial banks and, subsequently, to promote the expansion of financial services in rural areas. Political interference has exacerbated market distortions such as directed credit by sector and region and interest rate subsidies.

In recent months, a movement to diminish and/or split the authority of the Superintendence of Banks and Financial Entities (SBEF) has emerged. One proposed initiative places specialized superintendents (financial intermediation, insurance, securities, pensions, etc.) under the authority of a Superintendent General that reports to the Executive Branch, which could coordinate banking and financial policies. Such an arrangement could lead to a separation of regulation (the issuing of norms) from supervision (the implementation of norms through inspections) authorities for the SBEF. While the effectiveness of such arrangements can be debated, they no doubt harbor the specter of political interference which would damage the credibility of the Superintendence of Banks and, with it, that of the entire financial system. Recently, after a series of violent demonstrations against new taxes, the Government was forced to reduce the number of its ministries and executives, and it is now unclear what will happen with the above mentioned split of authority at the SBEF.

### **Rural Financial Services Activity (SEFIR)**

The Rural Financial Services Activity was initiated via a Task Order to Development Alternatives, Inc (DAI) under the Support for Economic Growth and Institutional Reform (SEGIR) Indefinite Quantity Contract (IQC) on March 20, 2001. The original Task Order

contained a Statement of Work that consisted of ten discrete activities, and was written for a base period that ran through January 19, 2004 and an optional period of two additional years. It was subsequently modified on November 25, 2002 to reflect a revision in the project's Statement of Work and Key Personnel, while maintaining both the original termination date and optional period. The modification, in effect, ratified changes in SEFIR's activities and management that had been operative since March of 2002.

As stated above, the objective of the SEFIR Activity is to support the expansion and improvement of timely, efficient, sustainable financial services from financial institutions to more people in rural areas. Underserved rural and urban populations alike are targeted especially deposit services.

The revised implementation strategy consists of:

- Providing technical assistance and training, as well as institutional strengthening and adjustment of services, to rural finance service providers, other financial system participants, and USAID/Bolivia;
- Researching, testing and introduction of new financial services that improve the financial services providers' ability to serve rural and urban underserved populations;
- Opening new points of service in rural areas by funding up to 50 percent of start-up costs;
- Supporting the Superintendency of Banks and Financial Entities and other government entities in developing the appropriate legal, policy and regulatory framework and the capacity to competently supervise microfinance institutions;
- Supporting the legislative action needed to facilitate rural finance, and;
- Supporting the development of an all-inclusive system for credit referencing.

The structure of the Activity encompasses three components:

1. Innovation and Expansion. This component focuses on the design, testing and launching of new and/enhanced products, as well as the establishment of new points of service; enhanced information technology; and organizational development.
2. Microfinance Industry Development. This component focuses on the empowerment of financial institutions through research, training, marketing, and the development of an all inclusive credit referencing system.
3. Policy and Regulation. The objective of this component is to strengthen the policy and regulatory environment for microfinance institutions and to fortify the supervisory capacity of the relevant authority.

## **Contractor**

The USAID Rural Financial Services Activity (RFS) is being implemented by Development Alternatives Inc. (DAI), under the SEGIR FS Indefinite Quantity Contract (IQC) No. PCE-I-00-99-00009-00, Task Order No. 809.

DAI has entered into sub-contacts with The Ohio State University Research Foundation (OSU), International Consulting Corporation (ICC), and ACCION International to assist in the implementation of the activity.

The OSU focus has been on conducting research and carrying out seminars on a variety of topics that include:

- Identifying opportunities and threats in the market segment
- Evaluating potential partner MFIs and their strengths and weaknesses
- Enhancing the Superintendence's understanding in the theory and practice of regulation and supervision of MFIs
- Providing training for partner financial organizations, regulatory and policy agencies and other relevant parties.

ICC has supported the Superintendence of Banks and Financial Entities in the development and testing of a model for on-site supervision of microfinance institutions.

ACCION is supporting FIE in the evaluation and development of savings products.

## **Institutions supported**

The RFS activity is providing technical support and training to the following institutions:

1. Microfinance Institutions: (a) Banco Solidario S.A. (BancoSol), (b) Caja (c) Los Andes, (d) Fondo Financiero Privado PRODEM S.A., (e) Fondo Financiero Privado FIE S.A., (f) FADES, (g) CRECER, (h) PRO MUJER, (i) ANED
2. Government Institutions: a) Superintendence of Banks and Financial Entities, and b) former Viceministry of Financial Affairs (VAF), and Ministry of Financial Services (MFS).
3. Other: a) Centro AFIN, b) FINRURAL and c) ASOFIN

## **II. TITLE**

Rural Financial Services Activity Mid-Term Evaluation.

## **III. OBJECTIVE**

The purpose is to conduct a mid-term evaluation of the implementation of activities in each of the following elements:

1. The Innovation and Expansion Component, whose objective is to promote a culture and practice of continuous innovation in products, delivery and institutional capacity to permanently extend the frontier of financial services in the Bolivian Microfinance Industry,
2. The Microfinance Industry Development Component, whose objective is to assist in building a microfinance industry infrastructure that reinforces innovation and consolidation of frontier advances,
3. The Policy and Regulatory Environment Component, whose objective is to contribute to the strengthening of the Microfinance Policy and Regulatory Framework by means of adjusting and/or modifying the prevailing inflexibilities and obstacles for the effective and sustainable expansion of the frontier of microfinance services.

## **IV. SCOPE OF WORK**

In the interest of better responding to the microfinance sector's need to ensure sustainable growth and expansion on the frontier of financial services, the contractor will:

1. Assess whether the RFS scope best responds to the sector needs given the current socio-economic situation of Bolivia, particularly the prolonged economic slump.
  - Analyze if the RFS objectives are realistic and if the targets are achievable, given current constraints.
  - Determine if the Contract document is still the most appropriate instrument to strengthen the microfinance and rural finance sectors.
  - Analyze whether the implementation mechanisms, i.e. technical support, training, and grants, are the most effective and appropriate mechanisms to achieve RFS targets.
  - Determine whether these mechanisms have or will lead to changes that result in increased efficiency, quality services to target clientele, and/or increased sustainability.

- Assess the current Project Monitoring Plan (PMP) and determine if the targets for each indicator are achievable given the current socio-economic environment.
2. Examine whether RFS activities have resulted, or have the potential to result in, positive and sustainable impacts to microfinance institutions and/or the sector.
    - Assess the extent to which DAI's interventions have been effective and responsive to the specific needs of each supported institution and the overall sector.
    - Determine whether the project and/or the grants fund is encouraging activities that the benefiting institutions would otherwise not undertake due to the lack of their own funds, technical skills and/or qualified personnel.
    - Appraise contractor's ability to identify constraints and/or weaknesses and effectively recommend and support the introduction of changes in the institutions and the overall sector.
    - Examine if benefiting institutions are adopting the new technologies, products, and recommendations from RFS.
    - Provide examples of institutional changes implemented by participating institutions that resulted directly from DAI's technical support activities.
  3. Examine if the implementation strategies are proving to be effective in achieving RFS objectives in each component or element.
    - Assess whether implementation strategies have or will contribute(d) to the individual institution's sustainability, increased efficiency, and/or increased outreach, as applicable.
    - Consider and discuss the role that current implementation strategies might have in correcting or adjusting recent policy and regulatory initiatives of GOB financial authorities.
  4. Pending implementation of the Law on Movable Guarantees and development of the Land Titling Law continue to pose obstacles to collateralize loans. In this regard, assess the feasibility of providing technical assistance in the development and implementation of any regulations necessary to increase sustainable access to financial services.
  5. Recommend any necessary adjustments to the RFS Activity scope or implementation structure, under the optional two-year extension period, to best suit the terms to the current socio-economic environment, to the individual experience and skills of the long-term technical assistance team, and to enable future expansion to rural areas.

## V. DELIVERABLES

Contractor will provide the following deliverables:

- A draft mid-term evaluation report
- Approved mid-term evaluation report, in English, 5 hard copies and an electronic copy in MS Word, in the following format:
  1. Executive Summary
  2. Introduction
  3. Methodology
  4. Results for Each of the Three Activity components
  5. Lessons learned
  6. Conclusions and Recommendations
- A presentation on findings and recommendations

## **VI. PERSONNEL**

Contractor will provide with a Microenterprise Strategic Planning Specialist Level 3, and a Microenterprise Legal and Regulatory Specialist Level 3, with experience and knowledge of the Bolivian microfinance industry. One of the consultants will be the team leader and will be responsible to assure that the evaluation includes all the elements cited above.

## **VII. TECHNICAL DIRECTIONS**

Contractor will work under the technical directions of the Economic Opportunities Team Leader and the Cognizant Technical Officer. The team will be provided with key documents related to the project to familiarize them with the background, development and implementation of the project. They will work with the EO SOT Chairman and SEFIR CTO to develop an interview schedule that includes the elements they will need to investigate, a list of individuals and organizations to be interviewed and a calendar of activities resulting in a report.

## **VIII. ILLUSTRATIVE LEVEL OF EFFORT**

46 workdays in total, 23 days for each consultant.



## **ANNEX B EVALUATION WORK PLAN**

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May 12	Begin evaluation; Michael and Steve discuss initial work plan; meet with Gabriela Salazar and Michael Kaiser of US AID/Ecuador.
May 13	Meet with DAI/SEFIR; attend presentation by Project team; discuss all aspects of Project to date; questions and answers.
May 13-20	Prepare questions for interviews addressing all elements of the scope of work; conduct interviews with MFIs, donors, industry institutions, GOB institutions; read and review reports, analyze data.
May 19	Meeting between Steve and Michael to discuss initial impressions and to refine work plan; assign responsibilities between the two in report writing so that each can focus research and analysis.
May 21	Interview USAID to discuss initial observations and findings; seek their opinion and perspective with regard to critical issues; review and agree on finalized work plan.  Meet with DAI/SEFIR to discuss initial observations and findings; discuss and clarify critical issues; discuss roles and relationships among DAI, USAID, other donors, MFIs and GOB entities.
May 22-23	Continue interviews; conduct second interviews to deepen information collection and analysis, if necessary.
May 24	Steve and Michael discuss findings and conclusions; agree on major recommendations and outline for first draft report.
May 25-26	Draft detailed initial evaluation outline including substantive findings, Conclusions and recommendations; prepare and deliver power point presentation for USAID.
May 27	Formal presentation to USAID technical office and Mission Director; Discuss conclusions and recommendations; obtain feedback for revisions and areas for further analysis as required for final report preparation.
May 28-30	Complete first draft written evaluation and submit to USAID and Chemonics for feedback and comments.
June 3	Receive feedback from USAID/Ecuador.
June 3-6	Complete final draft of evaluation report; submit to Chemonics for final revisions, formatting and submission to USAID.



## **ANNEX C**

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### **Persons Interviewed**

#### **RFS Long-term Staff Development Alternatives**

Fernando Prado, Executive Director  
Hillary Miller, Microfinance Specialist  
Rodolfo Quiros, Microfinance Specialist  
Lucrecia Palza, Administrator

#### **Microfinance Institutions (MFIs)**

##### **PRODEM**

Eduardo Bazoberry, General Manager  
Marcelo Mallea, National Manager of Operations  
and Finance

##### **BancoSol**

Julio Cesar Herbas, National Commercial Manager

##### **FIE**

Elizabeth Nava, National Credit Manager

##### **CRECER**

Evelyn Grandi, General Manager  
Daniel Tabora, Management Information Systems  
Manager

##### **FADES**

Fernando Mompo, Executive Director

##### **Pro Mujer**

Carmen Velasco, Executive Director  
Roberto Cornejo, Systems Manager

##### **Caja Los Andes**

Pedro Arriola, General Manager

#### **Industry Organizations**

##### **ASOFIN**

Jorge McLean, President, Board of Directors  
Dr. Alfredo Arana, General Manager

##### **FINRURAL**

Reynaldo Marconi, Director

##### **AFIN**

Carlos Rodriguez, Executive Director

##### **FUNDAPRO**

Enrique Blanco, Finance Manager

## **Bolivian government Institutions**

### **Superintendency of Banks**

Efrain Camacho, Sub Intendent  
Waldo Salinas, Intendent for Non-bank Institutions

### **FONDESIF**

Alberto Machicao, Executive Secretary  
Francisco Dipp, Director, External Financing  
Teresa Chumacero, Director, Institutional  
Strengthening  
Sergio Duchen, Director, Microsavings Program  
(MAP)

### **Vice Ministry of Financial Affairs**

Violeta de Torres, Director, Financial  
Intermediation  
Nadia Alcazar, Consultant  
Marcelo Torres, Legal Advisor

## **Donors and Multilateral Finance Organizations**

### **USAID/Bolivia**

Michael Kaiser, Director, Economic Opportunities  
S.O.  
Gabriela Salazar, Project Manager

### **International Monetary Fund (IMF)**

Gerardo Peraza, Resident Representative

### **World Bank**

John Newman, Resident Representative  
Carlos Mollinedo, Economist

**Inter-American Development Bank (IDB)** Fernando Catalano, MIF Specialist  
Gabriela Torrez, Consultant

### **German Technical Cooperation (GTZ)**

Heike Fiedler, Principal Advisor

### **Financial Sector Assistance Program**

Jose Auad, Director  
Swiss Cooperation Agency (COSUDE)

### **Spanish Technical Cooperation**

Fernando Mudarra, General Coordinator

## **ANNEX D POWERPOINT PRESENTATION**

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### **Evaluation of USAID/Bolivia's Rural Financial Services (RFS) Project**

## Evaluation of USAID/BOLIVIA's RURAL FINANCIAL SERVICES (RFS) Project

Presented by:

Steve Smith  
Michael Steidl

### Project Goals:

- Increased financial products and services to rural and underserved areas
- Increased points of service
- Improved policy, regulatory and supervisory environment

2

**DAI Contract:** March 2001  
**Amended:** February, 2002

Project Components:

1. Innovation and Expansion
2. Industry Strengthening
3. Policy and Regulation

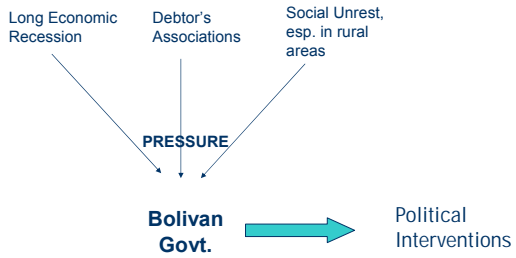
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### Purpose of 2 Year Mid-term Evaluation

- Assess contractor performance
- Evaluate implementation mechanisms
- Assess Performance Monitoring Plan (PMP)
- Recommend modifications

4

## Economic and Political Context



## Conclusions

### 1. Program Refocused to Underserved Areas and Institutional Strengthening

- Limited sustainable expansion into rural areas
- Assistance to NGOs reduced; assistance to regulated MFIs increased

### 2. DAI Technical Assistance Demand Oriented, not Decisive

- Demand orientation, quality services
- Has not “supplied” new ideas
- “Additionality” to regulated MFIs limited
- Minimal impact on PMP; could improve in 2003
- 2 initiatives w/ greatest impact: MDF
  - FIE-Pro Mujer Alliance
  - PRODEM ATMs

### **3. TA to Industry and Policy Areas Excellent; Could have Gone Further**

- Played lead role in BIC
- “Think tank” has produced, but not acted
- Supervision TA strong; regulation TA and policy dialogue weak

9

### **Program Management Inefficient**

- DAI-USAID relationship unproductive
- Unclear definition of roles between DAI and USAID
- DAI's personnel structure not optimal

10

### **Recommendations**

11

### **Recommendations**

- 1. Shift Resources Selectively  
from MFI Strengthening to  
Policy Dialogue**

12



## Recommendations

2. Policy Dialogue should be More Assertive

13

## Recommendations

3. Continue Support to Regulated MFIs Prioritizing New Products and Services Development; De-emphasize Rural Expansion

14

## Recommendations

4. Redefine DAI Structure and Long-term Personnel Terms of Reference

15

## Recommendations

5. USAID should Engage more with DAI in Identifying and Developing Program Initiatives

16

## Recommendations

### 6. Build a Truly Rural MFI Essentially from Scratch

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